

THE SINO-SOVIET BLOC ECONOMIC OFFENSIVE:  
HAZARDS FOR THE UNDERDEVELOPED COUNTRIES

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INTRODUCTION

In 1953 the Soviet Bloc began to use economic programs as a means of expanding its influence in the underdeveloped countries of the Free World, particularly in Asia and Africa. In these regions, new nations are struggling for national identification and economic improvement. Through offers of credit, technical assistance and trade to underdeveloped countries, the Bloc is seeking to promote its political objectives--to reduce the influence of the United States and its allies, to disrupt Free World alliances and to increase its own prestige and power.

President Eisenhower, in his message to Congress on the mutual security program said:

"If the purpose of Soviet aid to any country were simply to help it overcome economic difficulties without infringing its freedom, such aid could be welcomed as forwarding the Free World purpose of economic growth. But there is nothing in the history of international Communism to indicate this can be the case. Until such evidence is forthcoming, we and other free nations must assume that Soviet Bloc aid is a new, subtle, and long-range instrument directed toward the same old purpose of drawing its recipient away from the community of free nations and ultimately into the Communist orbit."

A. Soviet Bloc Capabilities

As Deputy Under Secretary for Economic Affairs C. Douglas Dillon reported to the Senate Committee on Foreign Relations:

"The USSR is now the second greatest industrial power in the world. The entire Bloc, including Communist China, has a gross national product of \$280 billion. It produces in quantity the principal kinds of manufactures, including machinery and capital goods, which the less developed countries require for their economic development. The USSR also has at its disposal the resources of a large part of Eastern Europe, including the industrial economies of Czechoslovakia and East Germany. It is also capable of arranging its economy so as to absorb large amounts of raw materials and foodstuffs from the rest of the world--cotton, wool, hides, rubber, nonferrous metals, oilseeds, sugar,

cocoa and the like. There is little doubt, therefore, that from the technical-economic viewpoint, the Bloc can greatly intensify its economic relations with the less developed countries of the Free World. Also, it can probably do this with economic benefit to itself. Industrial growth within the Bloc, which has increased much more rapidly than has its output of agriculture and raw materials, probably would now make it economically advantageous to the Bloc to encourage expanded trade with the Free World, exchanging in increasing degree Bloc industrial goods for Free World foodstuffs and raw materials. The Bloc, in short, can throw into the scale sizeable economic resources not only without damage to itself but probably with positive economic benefit."

#### B. Motivation Behind the Bloc Economic Offensive

By and large, Bloc activities are motivated by one of the ultimate aims of international Communism--the control, direct or indirect, of the emerging countries. In pursuing this aim the Bloc encourages existing tendencies toward over-rapid industrialization, nationalization, expropriation, and disruption of traditional ties with the West. Such actions result in a disturbed internal situation, both political and economic, which would be susceptible to Communism. They have the simultaneous effect of discouraging the entry of Western capital, managerial skills, and technological know-how, all vital to economic development.

The Bloc's long-range motivation was again made clear as recently as September 1957, when Soviet Far Eastern expert E. M. Zhukov quoted Lenin's remarks that "we are devoting all of our efforts so that Mongols, Persians, Indians, and Egyptians should draw closer to us and merge with us...." Communist efforts, therefore, may be directed toward the development of socialized economies of broad industrial bases, and of dissatisfied proletarian elements. The proletariat, of course, can be exploited by Communist-dominated political parties and trade unions.

#### C. Techniques

The Soviet Bloc economic penetration program has been implemented in four major ways: credit offers, technical assistance programs, trade agreements, and commercial penetration activities. These four techniques have been carefully examined in many countries and in almost all instances there was a demonstrable potentiality for subversion. The following pages contain concrete examples of the unfortunate results experienced by many recipient countries.

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I. SINO-SOVIET BLOC CREDIT PROGRAM

A. General

Soviet economic assistance almost always is extended in the form of loans. Very little grant assistance has been made available by the Soviet Union or its Satellites so far. The economic offensive has been, and will probably continue to be, primarily directed toward economically vulnerable countries in which the Bloc hopes that its political objectives can be advanced.

The acceptance of Soviet credits carries with it certain implications not always clear to the recipient countries. As yet there is no evidence that the Soviets are motivated by any altruistic desire to aid economic progress. Rather, they look upon aid as a means of securing changes favorable to their interests. Thus they hope to influence the recipient countries to adopt or maintain policies consistent with Soviet objectives.

Bloc loans essentially are lines of credit for the financing and purchase of capital goods, raw materials, and technical assistance from the Bloc. As pointed out in the State Department Bulletin of 27 January 1958, "In negotiating agreements, the Bloc gives no evidence of requiring economic justification for the projects involved." Where a development plan exists, the Bloc credit is designed to underwrite projects already decided upon by the recipients; sometimes such plans are based on recommendations of Free World institutions. In such cases the Bloc will be able to disclaim responsibility for failures in development planning. Instead of economic justification, there has been an obvious effort to select projects which will have both an important psychological impact on the recipient country, and propaganda value throughout the Free World.

American aid generally has been designed to build a foundation on which the recipient country's economy can safely expand. For the most part, the Soviets have ignored this aspect of the problem, and in some instances the Bloc program will probably result in economic imbalances in the recipient countries. The type of projects most frequently financed by Soviet credits has been spectacular in nature and not necessarily those most likely to produce any basis for expansion of real output. The actual effect of Bloc credit programs



has been inflationary in countries where implementation has been most rapid, such as Afghanistan. In countries where Bloc credits have not yet been drawn down, an inflationary threat remains.

B. Examples of Integrated Single Country Programs

1. Afghanistan

The Bloc has extended \$125 million to Afghanistan for "economic development." Short-range projects being sponsored by the Soviets are designed to give the Afghans the feeling that this development is indeed taking place. It is estimated that funds at least equal to the amount extended by the Bloc must be raised to cover the indigenous share of project expenses contracted under the various Bloc credit programs. Hence the eventual cost of Bloc aid projects in Afghanistan, if the total credit is drawn down, could run as high as \$350 million.

Repayment for projects must be made in goods. The effect of Afghanistan's drawing down all of the Bloc credits would be to tie up a large percentage of its exports for many years. It is doubtful that the aid given to Afghanistan will sufficiently stimulate production of exportable commodities to permit it to liquidate its indebtedness to the Bloc. The Afghans are already beginning to appreciate the economic implications of the indebtedness they are assuming. Recently, Foreign Minister Naim indicated to the US and Soviet Ambassadors that his country could accept no further loan assistance.

2. Syria

In order to repay Bloc credits, Syria will be required to direct a considerable portion of its exports towards the Soviet Bloc for many years to come. In addition, the Syrian Government is required to defray all local currency costs of the development program. A Syrian official estimated that these costs represent 70 per cent of total expenditures. Syria has already requested postponement of repayment on its arms debt. Deputy Under Secretary Dillon has commented that US economic experts believe that "if Syria is to defray the local currency costs of all these projects, estimated at \$390 million, ... there would have to be a dangerous degree of money creation, resulting in serious inflation. The Communist prescription for meeting such a situation, of course, would be the introduction of complete state control of the economy in order that resources could be directed away from consumption into development." (Department of State Bulletin, 24 March 1958, p. 472.)

Before the creation of the United Arab Republic, the Beirut newspaper Le Jour commented on the 1957 Syrian-Soviet economic agreement by stating that:

"The Syrian economy until 1970 will be strictly controlled by the Soviet Union, which has been entrusted with the mission of reorganizing and developing it. Nothing will escape the watchful eyes of the Soviet experts, not the soil or what is under the soil, or the factories or the bridges or the railroads or the dams or hydro-electric plants or irrigation plans ... what will happen if Syria cannot pay off this enormous debt which it has contracted with a great power which has always dreamed of placing its hegemony over the Near East?"

Although the creation of the UAR reduces direct Soviet influence upon Syria, the presence of Soviet personnel continues the threat.

### C. Political Implications of Bloc Credits

#### 1. Subversion

##### a. General

Inevitably, the establishment of closer economic ties with the USSR opens the door to political subversion. Soviet credit agreements, with their provisions for technicians, detailed studies, exploration projects, and technical assistance, which includes advice and supervision by Soviet experts at all economic levels, provide the USSR an opportunity for collection of intelligence and permit the establishment of an ever-widening base for subversion.

##### b. Strengthening Local Communist Parties

Even when there is no evidence that Soviet Bloc aid is used directly to benefit local Communist parties, the gain in Soviet "respectability" and prestige probably serves to strengthen the position of local parties and front groups in their bids for power.

#### 2. Political Strings and Leverage

##### a. General

Although the Soviets boast about the absence of conditions attached to their aid, the facts indicate the reverse is true. Soviet strings indeed may be subtle

and not readily apparent, but they are present. Although the USSR sometimes trains local operating personnel for the installations being built, many of the plants under construction will be manned by Soviet nationals for several years. Thus, the presence of a large number of Soviet citizens, each a potential channel for propaganda, becomes a lasting factor in the life of the recipient country.

b. Specific Examples

It has been demonstrated on a number of occasions that the Soviet Bloc stands ready to use economic grants for political purposes. In early 1957, the Pathet Lao attempted to make the acceptance of substantial foreign aid from Communist China a condition for political settlement with the Royal Lao Government.

Soviet-Yugoslav economic relations show what can happen in a country already intimately involved with the Bloc. Yugoslavia's expulsion from the Cominform and the subsequent disruption of economic relations demonstrate the use of economic sanctions for political purposes. In August 1956, Yugoslavia signed an agreement with the USSR and East Germany for the construction of a 700 million ruble aluminum production complex, with an annual capacity of 50,000 tons. Installation was to be completed by 1961. Shortly after Soviet-Yugoslav political differences came to the surface in late 1956, the USSR and East Germany announced that the aluminum project would be deferred. Manufacture of plant components was not to commence until 1961 or 1962. With the next shift in political tide and the Tito-Bulganin meetings, resumption of the project was announced. The original agreement was unilaterally broken for obviously political reasons, despite the Soviet Union's continual claim that Bloc economic assistance is free from political conditions. (Der Tagesspiegel, Berlin, 6 October 1957; Die Wirtschaft, Berlin, 8 August 1957; Christian Science Monitor, 3 June 1957.)

D. Economic Implications of Bloc Credits

1. Project Disappointments

a. Hidden Costs

The low interest rates set in loan agreements concluded by underdeveloped countries with the Soviet Bloc have proven somewhat illusory; a number of service charges

have added to the loans, with the net effect of raising over-all project costs. Practically all Bloc assistance provides for the purchase of goods and services from Bloc countries exclusively. This restriction is applied even to technical assistance which the USSR renders through the United Nations. In this way, recipient countries are prevented from obtaining the maximum benefit from loan funds by purchasing the most suitable goods at the lowest world market prices. An additional burden upon recipients of Bloc credits is the relatively short repayment period, seldom more than 10 to 12 years, requiring large payments within a short time.

b. Bakery Complex in Afghanistan

The much-publicized bakery and related facilities built in Kabul by the Soviets have proved to be a substantial disappointment to the Afghans. It is designed to produce Western-style bread, which the local population dislikes, preferring its traditional nan. As a result, the impressive bakery has been operating at only a portion of its capacity. It has been reported that 4,000 Kabul school children became ill from bread produced at the Soviet bakery, causing the schools to close.

c. Aswan Dam

The Soviet Union failed to finance the Aswan Dam project after withdrawal of the US and UK offers.

d. Soviet Offers to Ceylon

Only recently, the USSR promised to clear stretches of jungle for the Ceylon Government's development scheme, but it developed that the Russians had no suitable equipment. (Asian Analyst, January 1958)

e. Sugar Mill in Indonesia

Since 1955, an East German technical team has been directing the construction of a sugar mill in Djokjakarta, Indonesia. Although scheduled to be in operation by August 1956, present estimates indicate that the project will not be completed before late 1958. Since apparently no penalty clause was included in the contract, the Indonesians are relatively helpless to pressure the East Germans into speeding completion of the project, which is costing five to six times the original estimate.

2. Internal Disturbances Arising from Bloc Credit Projects

a. India

At various times reports from India have indicated a fairly widespread distaste for Soviet Russian drinking habits. The practice of living in compounds, insulated from the populations near which they live, has also irritated some Indians and Middle Easterners.

b. Syria

In Syria, TECHNOEXPORT, the Czech overseas construction enterprise, has been the target for demonstrations by Syrian workers in the Homs region, where a petroleum refinery is under construction. The Czechs had been recruiting in the rural villages, where labor is paid less, and had been paying their workers on a piece work rather than an hourly basis. As a result, workers found it difficult to earn more than 2 E Syrian per day (about 56 cents US), a figure which is as much as 14 E Syrian less than the wages paid by the ~~United Arab~~ Iraqi Petroleum Company. Syrian Government requests for a pay boost were refused.

## II. SINO-SOVIET BLOC TECHNICAL ASSISTANCE PROGRAM

### A. General

The USSR usually makes the provision of training facilities and technical exchange an integral part of credit arrangements. Technical assistance offers the Bloc a particularly valuable means for promoting closer ties with underdeveloped countries. Bloc technicians have a capability for indirect subversion designed to promote Communist objectives, particularly the Soviet propaganda theme of peaceful intentions. They also are able to influence the organization and character of the local development programs along Soviet lines. Soviet specialists are often engaged in advisory capacities to the ministries of the recipient governments, to various key technological services or in surveys of natural resources. Large numbers of technicians are attached to specific industrial or technical projects undertaken by Bloc countries in recipient countries. The influence which can be exerted by such technicians is magnified in countries which are in the early stages of technological development.

### B. Scope of Bloc Technical Assistance

#### 1. Bloc Specialists in Aid-Recipient Countries

The number of Bloc specialists in underdeveloped areas increased about 15 per cent during 1957. During the first half of the year, approximately 2,100 specialists visited the 19 Bloc aid-recipient countries for periods of a month or more. During the last six months, this figure rose to approximately 2,400. Most of the increase consisted of military personnel assigned to the five countries receiving military aid. This increase, from 600 to 800, was largely due to the expansion of the military mission to Egypt. Non-military specialists, such as agricultural, industrial, and professional personnel, increased from about 1,500 during the first half of 1957 to about 1,600 during the last half, with most of the increase taking place in Afghanistan, Egypt and Indonesia.

#### 2. Technical Training in the USSR

During 1957, well over 2,000 technicians, professionals, and students from the underdeveloped countries traveled to Moscow for special courses of study or for observation of Bloc techniques of planning and production. Five hundred enrolled in universities and other high-level educational institutes. The opportunities for long-range direct influence on these key groups within the underdeveloped countries are readily apparent.

The Soviets also supply both instructors and assistance for local educational systems. Russian specialists, for example, have made sweeping recommendations for the reorganization of Indian technical education. In addition, technological institutes provided by the Bloc (such as the one established in India and the nuclear energy laboratories in Egypt and Yugoslavia) provide a long-term base to subvert and influence local trainees. (Department of State Bulletin, 27 January 1958, Vol. XXXVIII, No. 970)

C. Political Implications of Technical Assistance

1. Technicians in Afghanistan

Some of the Soviet specialists speak the local language and they are thus in a position to influence Afghans with whom they work. Soviet technicians and construction workers have distributed Communist literature among Afghan workers, and on at least one occasion Communist slogans have had to be removed from the masonry of a building into which they had been built.

2. East German Survey in the Sudan

The Sudan has had similar experiences. After a year's survey of underground water resources in Sudan's Kordofan province, an East German team failed to locate any supply of water. Members of the Sudanese Government suspect that the East Germans were more interested in gathering intelligence than in finding water.

3. Trade Mission in Ethiopia

In Ethiopia, government officials have been disturbed by the activities of the Bulgarian Trade Mission. Although the Bulgarians had offered to construct a meat plant, tannery, soap factory and other projects, no progress has been made. Reportedly, the Bulgarians' main activity has been to tour the area extensively by car, carrying cameras.

D. Economic Implications of Technical Assistance

1. Numbers and Cost of Technicians

Soon after Afghanistan concluded a credit agreement with the USSR, hundreds of Soviet workers and technicians flooded the country. Soviet technicians arrive in India almost daily; an estimated 300-400 have arrived to date. The cost of transportation, wages, and living quarters of Soviet technicians must be borne by the local economy, as with free world technical missions.

2. Narrow Specialization

Reports from Afghanistan and India indicate that many Bloc technicians are often narrow specialists whose lack of flexibility sometimes makes it difficult to cope with closely related problems. The Afghans have complained that the Soviets employ four technicians to do the work by one German due to narrow Soviet specialization.

E. Soviet Participation in UN Program

The Soviet Bloc provides technical assistance to underdeveloped countries through the United Nations Technical Assistance program. Originally antagonistic to the UN program, the Soviet Union decided to become a participant in 1953. In 1954 it was joined by Czechoslovakia and in 1956 by Bulgaria, Hungary and Rumania. Bloc participation has been slight. While complicated by Soviet Bloc contributions in non-convertible currencies, it is clear that the impact made by the provision of technicians and equipment through the UN program has been considerable in the underdeveloped countries.

The principal impact of Soviet and East European participation has been psychological and political rather than economic. In addition to the obvious motive of enhancing its prestige, the Soviet Union also probably expected some specific gains from participation in the UN program. The UN program has undertaken to acquaint recipient countries with Soviet and East European equipment, supplies, technical experts, and technical education facilities. The expanded UN program is performing, in part, the function of trade promoters and industrial advertisers for the Soviet Union and Eastern Europe. ("Soviet Russia and the Underdeveloped Countries," The World Today, Chatham House Review, May 1957, pp. 207-219)



### III. SINO-SOVIET BLOC TRADE AGREEMENTS

#### A. General

The role of trade in Bloc economic diplomacy is clearly indicated by Khrushchev's statement to a US Congressional delegation to Moscow in September 1955: "We value trade least for economic reasons and most for political purposes." Because foreign trade is conducted as a state monopoly in the USSR, ordinary commercial considerations are of only secondary importance to the broad long-term political objectives of the Sino-Soviet Bloc.

In contrast to the normal trading patterns of other countries, much of the Bloc trade is highly selective and aimed at politically vulnerable underdeveloped countries. Most of the countries selected have economies which are dependent on one or two agricultural crops, such as rice or cotton, or on industrial raw materials. Frequently, 60 to 80 per cent of the volume of export trade consists of these few primary products. As a result, the economies of these countries are highly vulnerable to variations in yield and fluctuations in price. The Bloc offers favorable terms for hard-to-sell export surpluses.

Once a country develops reliance upon the Bloc as a major supplier of its essential imports and as an important export market, severing this relationship will create a serious internal economic disturbance to the nation involved. Soviet Bloc industrial equipment requires Bloc spare parts, and Bloc technicians; thus close economic relations with the Bloc tend to continue indefinitely.

Responsible people in many countries are becoming increasingly aware that Bloc trade, based on political motivation rather than commercial considerations may be unstable and is also politically dangerous. Communist trading practices are flexible enough to fit particular situations and to achieve special political ends.

#### B. Examples of the Hazards of Bilateral and Barter Trade

##### 1. Reorientation of Trade Patterns as a Result of Bilateral Agreements

The Bloc consistently has attempted to reorient the trade of underdeveloped countries by demanding bilateral trade agreements in return for its purchase of their exports. These bilateral agreements require the exporting countries to switch their imports to the Bloc in order to achieve bilateral balance. Economically vulnerable countries, particularly those relying on a limited number of commodity exports, can thus find themselves linked to the Bloc in ways which are costly and painful to correct.

a. Afghanistan

Current Soviet-Afghan trade arrangements give the Soviet Union a large part of Afghanistan's trade. As a consequence, Afghan trade with the Free World has diminished. During the Pakistani blockade of supplies entering Afghanistan during the summer of 1955, vital Soviet gasoline shipments were suddenly curtailed. While the curtailment was apparently a coincidence, Afghanistan was made painfully aware of the country's economic dependence on the USSR.

b. Egypt

Since most of Egypt's cotton has been going to the Soviet Bloc, Egypt has steadily lost ground in its traditional markets, such as the United Kingdom and Western Germany. Thus the Egyptians have suffered losses of traditional markets and foreign exchange. (London Times, 4 February 1958)

c. Ceylon

As a result of the rice-rubber agreement between Ceylon and China, China owed Ceylon £13.5 million sterling which it was reluctant to pay in cash. The Ceylonese finally agreed to accept rice in partial payment. The means of payment for the remaining unpaid balance was still not agreed on as of February 1958. At the time the Chinese first refused to pay cash, The Economist, London, commented:

"The Chinese move is a good example of the opportunities trade agreements give of exerting economic, and eventually political pressure. If Ceylon refuses to renew the agreement, on China's terms, it risks losing both a market and the money which it is already owed. If it accepts, it will have to restrict its imports from other countries, disregard its obligations under GATT, and allow its economy to become still more vulnerable to pressure from China. China, on the other hand, is a free agent; now that the embargo has been lifted, it can obtain rubber at competitive prices from other countries."

2. Barter Trade Hazards

Barter agreements between Communist countries and underdeveloped countries have a distinct disadvantage in that normal trading arrangements are upset.

a. Burma

U Nu's comment to a press conference that "a man who takes barter when he can take cash must be out of his mind," embodies the Burmese disillusionment over trade with the Bloc. Following an internal rice slump in 1954, Burma resorted to barter with Communist countries to dispose of unsold stocks. In 1955 and 1956, Burma concluded barter trade agreements with China, East Germany, USSR, Poland, Rumania, Czechoslovakia, Hungary, and Bulgaria for periods ranging from one to five years. Officially the barter agreements were referred to as the "clearing accounts system."

Although Burma managed to market a substantial percentage of its rice exports through these agreements, it accumulated large credit balances with the Bloc which it had to draw down in overpriced Soviet goods. Many items on the Communist "available" products list proved to be unavailable and it was necessary to take substitute goods. Private traders in Burma estimated that Burma paid from 10 to 30 per cent more for Soviet Bloc goods than for similar goods from Western Europe. U Nu said in May 1956 that "our experts have laid before us the implications of barter trade, that prices are manipulated as to place us at a disadvantage by 10 to 30 per cent on the goods exchanged." Burmese warehouses are full of Communist electrical goods which do not fit Burmese sockets, cement which does not set, asbestos roofing sheets which are the wrong size, plumbing fixtures which do not fit Burmese pipes, congealed condensed milk and rusty tins, and Czech whiskey which no one will drink. (Far Eastern Economic Review, 13 June 1957)

Burma's agreement to accept cement as a barter commodity proved almost disastrous. Soviet freighters unloaded 42,000 tons of cement in Rangoon alone, filling all available warehouse space and blocking the unloading of badly needed consumer goods from other areas; port income was simultaneously choked off. Much of the cement was ruined by monsoon rains, while Burmese requests to halt or even slow down the Soviet deliveries were ineffective. Members of Chambers of Commerce in Burma complained that a month passed before Moscow answered commercial inquiries.

On the other hand, the Bloc pattern of deliveries is quite unpredictable. Deliveries, sometimes delayed from 3 to 10 months, have often resulted in losses to Burmese traders after expiration of their import licenses.

Although the USSR absorbed 40 per cent of Burma's entire rice export to barter countries, the goods shipped in return accounted for only 12.5 per cent of barter imports. Since China supplied 50 percent of the barter goods, Burma incurred a serious deficit to China while its trade balance with the USSR was just the reverse.

Meanwhile, quantities of Burma's bartered rice were re-exported by Soviet Bloc recipients in direct competition with Burma's normal trade. Communist China, in particular, profited on Burma's rice by re-selling the commodity to Burma's regular customers. (The Nation, Burma, 9 October 1957; Foreign Agriculture, May 1957; Far Eastern Economic Review, June 1957)

b. Argentina

Argentina has recently sent a high-level trade mission on a visit to Bloc capitals in an effort to utilize old credit balances held by the Bloc in Argentina's favor. In 1954 and 1955 the bilateral agreements concluded by the Peron regime with Bloc countries were honored by Argentina with large shipments of goods overpriced for traditional markets. The Bloc, however, shipped very little in return and thus accumulated large unfavorable balances still active in 1958. The existence of these balances is tantamount to Argentine credits to the Bloc state trading monopolies.

C. Political Implications

1. Iran

Soviet trade representatives in Iran have insisted on dealing directly with chosen merchants, granting a few of these businessmen sizeable profits in return for "kickbacks" which are then used to pay the expenses of Soviet intelligence organizations. Felix Aghayan, one of the country's biggest importers, told Christian Science Monitor correspondent, Wilfred A. May, "I always feel that in dealing with the Soviets I'm dealing with someone who wears a political suit first, and a trade suit second. We resent the Soviet trade officials here, moseying around when we don't know what they're up to except that they are in all probability doubling as political spies and propagandists."

2. Greece

The Greek newspaper Vradyni reported on 10 October 1957 that the Soviet Embassy in Athens was using third persons to blackmail Salonika businessmen doing business with the Soviet Union. Although the details of the commercial transactions were supposedly known only to the Greek businessmen involved and to the Soviet trade delegation in Athens, Greek businessmen were approached by individuals who knew the amount of goods exported, and the exact profits made. One tobacco merchant gave 5,000 drachmae to the Greek-Soviet League in order to be permitted to continue exporting tobacco to the Bloc. The "collectors" acting for the Soviet Embassy combined their claims for money with blackmail threats about future business transactions with Russia. Consequently, the merchants who wanted to continue in business made the requested contributions.

3. Holland

Netherlands traders provided an example of the political pressures involved in trade with the Communists. Before the conclusion of the Soviet-Netherlands trade accord in June 1956, Dutch negotiators expressed surprise that the Soviet draft agreement contained no provision for USSR purchase of the Netherlands staple exports of meat, cheese and butter, despite Soviet Russia's importation of substantial quantities of these foodstuffs since 1953. When the negotiators pointed out the omission, the Soviets explained they were no longer importing these items. However, while the accord was still being discussed, a Soviet-Denmark agreement revealed that Danish meat, cheese and butter were among the commodities the Soviets would import. Confronted by this fact, the Soviet negotiator told the Dutch officials that the Premier of Denmark had recently visited Moscow--the implication being that the purchases were a political reward.

4. Australia

In the 1953-1954 season, Australia sold the USSR 30 million pounds of wool. Soviet buying stopped after Australia granted asylum to Petrov, a Soviet official who defected. (Washington Post, 23 June 1956)

5. Israel

Soviet shipments of fuel and crude oil to Israel were cut off by the USSR on the grounds of "force majeure" one week after Israel invaded Egypt. Cancellation of the Soviet contract caused considerable hardship for Israel, whose ships were waiting to load at Black Sea ports.

6. Finland

A good example of Soviet exploitation of trade agreements to influence Finnish policy occurred in November 1957. Following the fall of the Sukselainen Government, Vaino Tanner was asked to form a new Cabinet. Because Tanner was persona non grata to the Soviets, the USSR postponed 1958 trade negotiations with Finland. Finnish Government trade circles clearly perceived the implications of the Soviet move.

D. Economic Implications

1. Shoddy Goods

a. Egypt

A 7,200 ton cargo of kerosene, purchased by Egypt from Rumania at bargain prices, turned out to be so inferior that it was necessary to refine the entire cargo at considerable expense. Standard tests revealed that the cargo, as delivered, burned lamp wicks to ashes and coated lamp chimneys with a heavy black soot. The cost required in pumping the oil into government refineries, mixing it with crude oil at 20 cents a barrel and reprocessing it through distillation is reported to have exceeded the 15 per cent saving the Egyptian Government had expected to gain through this "bargain" deal. Another Egyptian experience involved Soviet wheat which recently arrived in Egypt. When analyzed by agricultural experts, it was found to be animal feed. Bread made from it turned green in color.

b. Afghanistan

Many Soviet deliveries to Afghanistan have been sub-standard. Some shipments of Russian cement were rejected as "mostly sand." Trucks from Soviet factories sent to Afghanistan are defective, and not suited to the local terrain.

c. Syria

In February 1956, Damascus automobile dealer Salah Bizri was forced to terminate his agency for East German IFA passenger cars and trucks. Customers were demanding refunds, complaining that the vehicles lacked sufficient power for traction on moderate grades in and around Damascus. In addition, there were widespread complaints that serious engine trouble had developed only a few months after purchase. After drawn-out negotiations, Bizri was finally able to persuade the East German manufacturer to take back the remaining unsold vehicles.

d. Indonesia

The New York Herald Tribune reported on 17 December 1957 that the Indonesian Army was bitter about jeeps imported from the Soviet Union. Indonesian officers complained that the tires did not stand up, that windshields shattered and motors rattled to pieces. At the same time, Moscow was pressing Indonesia for payment for the shipments that had been made.

e. Iran

In February 1957, the Hungarian Commercial Delegation found itself with 12,000 worthless bicycle tires rejected by an Iranian buyer. The tires did not fit any normal size wheel and their quality was so poor that they had begun to deteriorate while in storage.

2. Price Manipulation

a. Burma

The Rangoon newspaper Nation reported on 1 February 1956 that Chinese suppliers often raised prices 10 to 15 percent after terms had been worked out and Burmese import licenses had been issued.

b. Hong Kong

In Hong Kong, the Chinese have on several occasions profited from their near-monopoly position by withholding shipments of pigs and poultry until prices rose sharply, then selling to gain extra profits. (Far Eastern Economic Review, June 1957)

c. Iran

In Iran, Abbas Massoudi, Iranian newspaper publisher and member of Parliament, summed up the difficulties in trade. "The main difficulty comes from the Soviet Union's concentration on State trading, which means manipulated prices. Prices are non-competitive; they price their own goods too high and they pay too low. In this they try to treat us just as they treat their Satellites."

d. Egypt

Communist cotton buyers in Egypt during 1956 haggled over every point, questioned the quality of shipments, and juggled accounts to conceal their purchases. At the same time, prices of some Bloc goods sold to Egypt rose about 40 per cent above world competitive market prices.

e. Greece

Alexander Tsatsos, head of the Federation of Greek Industries and President of the General Cement Company, stated that his firm has become completely disillusioned about sales to the Soviet Union. "They have shown they are completely uninterested in a free and natural market," he said. "They continually price their exports out of the market, which makes it unwise to depend on them."

3. Resale in Third Countries

There is a constant threat of Soviet resale or dumping of imported goods on Free World markets.

a. Burma

The bulk of Burmese rice, 112,000 of the 150,000 tons bought by China in 1954 and 1955, was sent to Ceylon, traditionally one of Burma's best customers. Since Burma had no rice to sell, Ceylon had to pay \$20 more a ton for Burmese rice re-exported by Peiping than it would have paid had it bought directly from Burma. Hungary bought 20,000 tons of Burmese rice and then resold it to French West Africa at a lower price. Rice bartered to Bloc countries has appeared in West Germany, and as a consequence Burmese direct sales to West Germany declined. (Far Eastern Economic Review, June 1957)



b. Egypt

The Soviet Bloc has resold Egyptian cotton at a 10 to 14 per cent discount on Western markets for hard currency. Nothing that the Egyptian Government has done, whether by offering premiums or by juggling with payment mechanisms, has enabled Egypt to regain its former markets. (London Times, 4 February 1958; New York Times, 7 March 1958)

c. Turkey

Turkish tobacco merchants have found that Bloc countries are reselling tobacco originally purchased in Turkey to the US. Having obtained Turkish tobacco in exchange for overpriced Bloc commodities, the USSR and Satellites have then resold the leaf to US buyers, using European intermediaries. An indication of Turkish concern is a recent directive of the Turkish Trade Ministry in directing sellers to refuse sale of high-grade leaf to Bulgaria since Bulgaria is known to have resold Turkish tobacco to the West.

4. Failure to Honor Terms of Agreements

a. Japan

In Japan, 20 Japanese firms contracted to import 153,000 tons of soybeans from China at \$39 per ton. The Chinese firm then notified the Japanese traders that only 60,000 tons were available at that price, and quoted a higher price for the additional amount. The Japanese had to accept the new terms. (China Association, London Bulletin No. 121, 20 June 1956)

b. Egypt

In Egypt, the Soviets signed a barter agreement in 1952 which provided for the trading of Egyptian cotton for Soviet wheat, both being valued at inflated prices. Both parties to the agreement appeared to be satisfied with its terms until the price of cotton began to decline on the world market. Then, despite the agreement, the USSR demanded a revision of the contract to bring the barter price of cotton down to the prevailing price in the world market. (The Havana Post, 18 May 1957)

c. Burma

A prominent Burmese export-import firm entered into an agreement in 1956 with the Soviet PROMSYRIO-IMPORT organization for milled steel square bars. The Soviets later notified the firm that the steel could not be delivered before 1957 at the earliest.

5. Difficult Trading Practices

a. India

The Soviet Bloc countries conceal a large part of the trade and production data customarily published by other countries, and regarded as essential by Western businessmen for planning purposes.

Indian Airlines encountered an example of such Bloc secrecy when it began negotiations for Soviet Ilyushin-14 aircraft. The Indians required detailed information about performance, maintenance, and construction necessary to calculate costs of operation and secure certification for airline use. The Russians refused to supply the specifications. They also proposed that all major maintenance be done in Moscow, which would have involved long costly flights and kept aircraft out of service for longer periods. The Russians would not compromise so the idea was abandoned.

Small firms in particular suffer as a result of Soviet Bloc methods of doing business. In India, Chinese Communist buyers insisted on bulk purchases of 50 to 200 tons of black pepper at a time, amounts that only the big trading firms could supply. Demands for such large quantities led to speculation and artificially increased prices, which benefited only the big dealers and monopolists.

b. Hong Kong

In dealing with Free World firms, the Chinese Communists reserve the right to full or partial rebate from the shipper within 60 days in case the local Chinese Communist Commodity Inspection and Testing Bureau finds the goods unsatisfactory. The decisions of the Bureau cannot be appealed and the Chinese Communists are reported to have used this device to reject imported goods arbitrarily, or to insist upon paying less than the agreed terms. Since some time elapses between delivery of the goods to the inland buyer, inspection of the goods, and shipping back in the case of rejection, some

goods are returned to Hong Kong spoiled or damaged even though at the time of delivery they may have been in accordance with the specifications of the contract. Rough handling of the goods during the process of shipping them back and forth contributes to spoilage and breakage. Once the goods are received in Hong Kong, the seller is obligated to refund the borrowed funds and take the losses.

c. Switzerland

Swiss traders encountered unusual difficulty in dealing with East German enterprises at the 1957 Leipzig Fair. In one case a Swiss prospective buyer found that he had to get special permission to inspect a machine in which he was interested. Additional phone calls to his superiors had to be made by the East German salesman in order to answer technical questions and, later, to demonstrate the equipment. Unable to obtain a copy of the specifications, the Swiss was required to leave his name and address so that these could be mailed. They were mailed, many weeks later, by the Soviet Embassy in Bern.

d. Sudan

The vast majority of contracts between non-Communist business corporations and Soviet agencies contain a clause stating that all disputes shall be submitted to the Soviet Foreign Trade Arbitration Commission of the All-Union Chamber of Commerce in Moscow; that the Commission shall operate under its own laws of procedure; and that its decision shall be final. Thus traders have no legal recourse or other established means to settle disputes. (New York Times, 3 November 1957)

The Sudanese newspaper Al Umma reported on 10 November 1957 that the Sudanese firm Hamid Al Sayyis and Company has sued the Soviet Government for 24,000 E Sudanese as the result of unsatisfactory performance on a cement deal arranged through the Soviet Commercial Attache in Khartoum. When the cement arrived it was found to be of poor quality and packed in inferior bags which had broken, causing further damage. The Chairman of the Sudanese firm has traveled to Moscow in an attempt to get satisfaction. The case has now been pending for several months and no resolution of the plaintiff's case seems in sight.

#### IV. COMMERCIAL PENETRATION

##### A. The Technique

Commercial penetration consists of using indigenous enterprises in the interest of the Bloc. Although this technique has been seldom used by the Bloc thus far, the threat from this type of operation is real indeed.

##### B. Examples

###### 1. Communist-Controlled Branches of the Bank of China

Many branches of the Bank of China which the Chinese Communists have taken over have been used as instruments for the financial support of local Communist organizations. For example, according to press reports, the Government of Burma believes that the gains made by the Communist-led National United Front in the April 1956 elections were due, in large part, to the generous financial aid supplied to the Front by the Chinese Communists through the Bank of China.

One of the most important uses of the Bank of China by the Communists is in influencing the Overseas Chinese communities which play so important a part in the life of many Southeast Asian countries. The Bank of China gives direct subsidies to Communist-dominated agencies in the form of low-interest, easy-term loans; schools receive funds for the purchase of textbooks and buildings or for the employment of pro-Communist teachers; and pro-Communist newspapers receive loans from the Bank.

Another far-reaching activity in winning the Overseas Chinese to the Communist side is the loan program to businessmen and to small borrowers who would normally depend on money-lenders of the bazaars. The Bank offers loans on easier terms and at lower interest rates than other banks, but it shows preference to Overseas Chinese who will line up publicly on the Communist side. The borrower must be introduced by a reliable pro-Communist who will vouch for his political reliability, must agree to send his children to a Communist school, to fly the Communist flag on holidays, and not to subscribe to nor support any anti-Communist or Nationalist papers or organizations.

Chinese Communist Embassies and Consulates have an important voice in the approval or rejection of loan applications. One procedure for deciding upon loans is for the Chinese Embassy officers to rely upon local organizations such as Chinese Chambers of Commerce, labor unions, or firms dominated by Communists to pass upon the economic and political status of applicants, since these organizations have wide knowledge of the local community. The applicant for a loan files his application with the local organization which investigates him, and then passes the application to the Chinese Embassy with its recommendation that it be granted or rejected. The Embassy reviews it and, if favorable, then passes it along to the Bank, which grants the loan and does the paperwork.

2. Promasheksport

According to a report in the Soviet foreign trade organ Vneshnaya Torgovlya, a foreign trade organization called "Promasheksport" was established in Moscow in July 1957. Its authority to lease, buy, and invest in foreign enterprises, however, would mark a departure from past practice, at least in openly Soviet-sponsored activities. Up to March 1958, active operations of Promasheksport had not been observed. It is clear, however, that its existence would pose a considerable threat to the Free World along many lines, including for the first time, overt commercial penetration by the USSR.

3. Bank of Chios

A current Communist attempt to use European banks for penetration illustrates the technique of operating through an ostensibly Western European bank to acquire control of another bank in a third country. The Communist-controlled Banque Commerciale pour l'Europe du Nord, in Paris, has recently been attempting to acquire control of the Bank of Chios, Athens. Once control of the Bank of Chios is acquired, the Communists intend to start a program of credits to Greek rural cooperatives attaching political strings to each transaction. For a largely agricultural economy, the political implications are great. (Athens, Ethnikos Kiryx, 19 January 1958)